

Message Text

PAGE 01 STATE 146538

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ORIGIN NEA-06

INFO OCT-01 SS-14 ADP-00 NSC-10 NSCE-00 CIAE-00 INR-10

NSAE-00 RSC-01 INRE-00 L-02 EB-03 ABF-01 TRSE-00

AGR-03 OMB-01 SSO-00 AID-10 PRS-01 H-01 A-01 /065 R

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OMB:AIVORY (SUBS) - NEA/AHMEYER

----- 055719

O 252302Z JUL 73

FM SECSTATE WASHDC

TO AMEMBASSY NEW DELHI IMMEDIATE

INFO AMEMBASSY ISLAMABAD

AMEMBASSY KATHMANDU

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LIMDIS

E.O. 11652: N/A

TAGS: EFIN, PFOR, EAID, ETRD, EAGR, IN

SUBJECT: RUPEE NEGOTIATIONS

REF: NEW DELHI 8417, 8520

FOR AMBASSADOR

1. YOU HAVE GOTTEN US OFF TO A GOOD START ON THE
BUSINESS OF RUPEE NEGOTIATIONS. GETTING THESE DISCUSSIONS
UNDERWAY IS AN IMPORTANT STEP IN EFFORTS TO BUILD A NEW
AND BETTER OVERALL RELATIONSHIP WITH INDIA, AND THE MANNER

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PAGE 02 STATE 146538

IN WHICH THE INDIANS RESPOND WILL BE SEEN HERE AS AN
INDICATION OF WHAT THEY ARE PREPARED TO DO TO CONTRI-
BUTE TO THAT END.

2. IN CONNECTION WITH THESE NEGOTIATIONS, WE WANT TO FLAG SEVERAL MATTERS WHICH ARE OF VERY CONSIDERABLE INTEREST BACK HERE AND TO RESPOND TO QUESTIONS RAISED IN YOUR 8520.

A. THE FIRST CONCERNS AID TO NEPAL. WE EXPECT TO BE ABLE TO USE OUR RUPEES FOR WHOLE RANGE OF USG ACTIVITIES IN NEPAL, INCLUDING FOR EXAMPLE OUR EMBASSY ADMINISTRATIVE COSTS, OUR AID PROGRAM, USIS AND PC ACTIVITIES, FOR THE LIFE OF THE RUPEE AGREEMENT. THIS IS A DIRECT DOLLAR SAVER FOR US. WHILE, OF COURSE, WE WELCOME GOI AGREEMENT

TO PAY THE OUTSTANDING DOLS 8 MILLION TRANCHE AND INDEED BELIEVE THEY SHOULD CLEAR UP THIS OUTSTANDING MATTER, WE ALSO WANT THE RIGHT TO USE A PORTION OF OUR DOLS 1.5 BILLION EQUIVALENT FOR FUTURE ANNUAL EXPENDITURES IN NEPAL. YOU MAY ALSO WISH TO KEEP IN MIND THE IDEA OF THIRD COUNTRY TRAINING IN INDIA (KATHMANDU 2401 AND STATE 33159). SENATOR INOUE, DURING AID HEARINGS, ALSO STRONGLY RECOMMENDED THAT PORTION OF RUPEES BE RESERVED FOR AID-SPONSORED TRAINING IN INDIA FOR NEPALESE AND OTHER COUNTRY NATIONALS.

B. SECOND, AN MOV CLAUSE IS IN OUR VIEW ESSENTIAL TO DEFEND THE RUPEE AGREEMENT SUCCESSFULLY WITH THE CONGRESS. WE ALSO WANT TO PROTECT AGAINST INDIAN INFLATION THE AMOUNT OF RUPEES RESERVED FOR US-USE. OBVIOUSLY THE GREATER INDIA'S FUTURE RATE OF INFLATION, THE FEWER YEARS OUR DOLS 1.5 BILLION EQUIVALENT WILL LAST US. RECENT INFLATION RATES IN INDIA HOLD LITTLE PROMISE OF STABLE PRICE LEVELS FOR THE FUTURE. FOR THIS REASON, INTER ALIA, WE MUST HAVE AS A MINIMUM AN MOV CLAUSE ON OUR REMAINING RUPEES. IT WOULD PROVIDE SOME ADMITTEDLY INDIRECT PROTECTION AGAINST INFLATION IN INDIA. THIS ASSUMES THAT REALLY SERIOUS INFLATION RATES IN INDIA WOULD EVENTUALLY LEAD TO DEVALUATION OF THE RUPEE VIS-A-VIS THE DOLLAR. OF COURSE, WE ARE LIMITED OFFICIAL USE
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PAGE 03 STATE 146538

CONCERNED ONLY WITH THE BUYING POWER IN INDIA OF INCONVERTIBLE RUPEES. HOWEVER, THE MOV PROTECTION WOULD GIVE US A BASIS AGAINST WHICH WE CAN MEASURE THIS BUYING POWER. WE CONSIDER MOV ESSENTIAL IF WE ARE TO DISPOSE OF ABOUT DOLS 3 BILLION EQUIVALENT IN LOCAL CURRENCY CLAIMS THAT WOULD OTHERWISE IN EFFECT BE AVAILABLE OFFSET INFLATIONARY COSTS.

C. IN ADDITION TO RETAINING THE MOV PROTECTION, WE WOULD WELCOME YOUR SUGGESTIONS FOR OTHER MEANS OF PROTECTING US AGAINST SERIOUS INFLATION IN INDIA.

D. REGARDING THE PROPOSAL TO USE A SPECIFIED AMOUNT OF RUPEES AS PARTIAL PAYMENT FOR INDIAN EXPORTS PROCURED BY USG AGENCIES, THIS ARRANGEMENT HAS BEEN USED, WITH LIMITED SUCCESS, BY YUGOSLAVIA. THE YUGOSLAV GOVERNMENT WISHED TO PARTICIPATE TO A GREATER EXTENT IN DOD PROCUREMENT IN EUROPE, AND IN ORDER TO MAKE YUGOSLAV GOODS MORE COMPETITIVE AGREED TO ACCEPT TWENTY PERCENT PAYMENT IN DINARS. ACTUAL USG PROCUREMENT IN YUGOSLAVIA VIA THIS ROUTE HAS BEEN LIMITED. EXISTING USG RESTRICTIONS ON FOREIGN PROCUREMENT, DUE TO BOP PROBLEMS, WOULD LIMIT THE POTENTIAL APPLICABILITY OF THIS PLAN TO INDIA (AND ANY COUNTRY) TO SITUATIONS INVOLVING

BOP DOLLAR SAVINGS. HOWEVER, WE BELIEVE IT WOULD BE DESIRABLE TO SEEK GOI CONCURRENCE, A FORTIORI, IF THE GOI VIEWS THIS AS A DESIRABLE FEATURE OF THE PACKAGE, PARTICULARLY AS WE MOVE TOWARD AN ECONOMIC RELATIONSHIP BASED ON MUTUAL TRADE OPPORTUNITIES. (WE NOTE YOUR AIDE MEMOIRE OFFERS GOI DOLS 25 MILLION IN RUPEES AGAINST DOLS 75 MILLION. AGREEMENT ON CEILING FIGURE IS NOT RPT NOT COMMITMENT BY THE USG TO SPEND THE FULL AMOUNTS ON INDIAN GOODS).

3. WE STRONGLY BELIEVE IT TO BE TO OUR ADVANTAGE TO AVOID COMMITTING OURSELVES TO A SPECIFIC TIME PERIOD (SUCH AS 14 YEARS), BUT RATHER TO SEEK AGREEMENT ON THE BASIS OF A GIVEN AMOUNT OF RUPEES, EXPRESSED IN DOLLARS EQUIVALENT. NEWS REPORTS OF TEN TO FIFTEEN YEAR AGREEMENT HAVE RAISED VERY CONSIDERABLE CONCERN LIMITED OFFICIAL USE LIMITED OFFICIAL USE

PAGE 04 STATE 146538

HERE. WE HAVE BEEN THINKING IN TERMS OF A TOTAL AMOUNT WHICH WOULD LAST 20-25 YEARS AND BELIEVE BEST WAY OUT OF THIS IS, AS SUGGESTED ABOVE, TO AGREE ON TOTAL FIGURE, AVOIDING ALL MENTION OF A TIME PERIOD. OUR PROPOSAL TO INDIA IS TO PUT A FORESEEABLE END TO OUR USE OF RUPEES BY RETURNING TO INDIA AT LEAST TWO RUPEES FOR EACH ONE WE PROPOSE TO KEEP. THAT SHOULD BE ENOUGH TO ENABLE US TO OBTAIN AN AGREEMENT WITHOUT A TIME LIMIT.

4. FINALLY, WE WANT TO EMPHASIZE AGAIN WHAT WE KNOW YOU AND YOUR COLLEAGUES FULLY APPRECIATE THAT THE OFFER WE HAVE MADE TO INDIA WILL BE SEEN BY MANY IN CONGRESS AND ELSEWHERE AS A MAJOR CONCESSION ON OUR PART WITH INDIANS GIVING LITTLE, IF ANYTHING, IN RETURN. WE THEREFORE, NEED TO BE ABLE DEMONSTRATE TO THE CONGRESS THAT AGREEMENT CONTAINS ELEMENTS OF REAL BENEFIT TO US. HENCE, THE IMPORTANCE OF SOMETHING LIKE THE MOV CLAUSE. THE SAME APPLIES TO OUR REQUEST TO RAISE FROM TWO TO FIVE PERCENT THE AMOUNT OF PL 480 LOAN REPAYMENTS THAT COULD BE CONVERTED INTO DOLLARS FOR AGRICULTURE

MARKET DEVELOPMENT, A PROPOSAL OF MODEST AMOUNT IN DOLLARS BUT SIGNIFICANT IN DEFENSE OF AN AGREEMENT HERE. YOU AND YOUR COLLEAGUES WILL HAVE YOUR OWN IDEAS THAT CAN BE WORKED INTO THE NEGOTIATING PROCESS AND WE WILL ADD THESE FROM HERE AS WE MOVE ALONG IN WAY THAT WE HOPE WILL STRENGTHEN YOUR HAND IN GETTING THE SETTLEMENT WE WANT.

5. FINALLY, PLEASE REMIND GOI OF PROBLEMS WE FACE ON THE HILL, IF US-GOI AGREEMENT IS ACHIEVED, IT CANNOT BE FINALLY IMPLEMENTED WITHOUT FURTHER WORK WITH OUR CONGRESS. ROGERS

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